

Date: 22 July 2010

USD-ZAR 7.4981/6067
 GBP-USD 1.5130/234
 GOLD \$1182.55

EUR-ZAR 9.5916/7019
 USD-JPY 86.296/726
 ALLSHARE 27 833.52

GBP-ZAR 11.4018/5189
 AUD-USD 0.8731/812
 DJI 10 120.53

EUR-USD 1.2735/817
 R157 7.600%
 3M JIBAR 6.515%

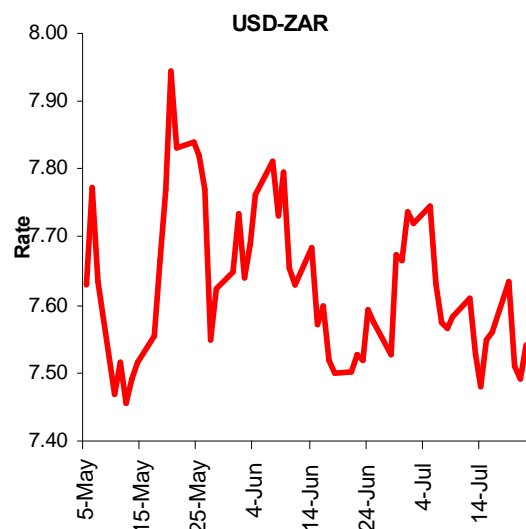
Time (GMT)	Country	Event	Month	Exp	Prior
13:00	SA	SARB MPC decision		6.50%	6.50%
07:30	DE	Manufacturing Flash PMI	Jul	58	58.4
08:00	EZ	Services Flash PMI	Jul	55	55.5
08:30	GB	Retail Sales m/m	Jun	0.50%	0.60%
09:00	EZ	Industrial new orders m/m	May	0.00%	0.90%
12:30	US	Jobless claims	w/e	445.0k	429.0k
14:00	US	Existing home sales	Jun	5.1mn	5.66mn
14:00	US	Leading indicators	Jun	-0.30%	0.40%
	US	Fed Chair Bernanke semi-annual testimony on economy and monetary policy before House Financial Services Committee			

Today's Talking Point

SARB MPC takes centre stage: MPC meeting today and there are calls to both leave repo on hold and to reduce the rate by a further 50bps. Consensus is in favour of no change with 15 of the 22 polled calling for rates to be left on hold. The risks remain for further cuts but this will not happen today and possibly only at the next September MPC when the SARB has a clear confirmation that it needs to respond to especially low inflation pressures. Gov Marcus is likely to leave her options open and with her sensitivity to offshore risks she is likely to adopt a dovish tone even while making the case for why rates currently remain appropriate.

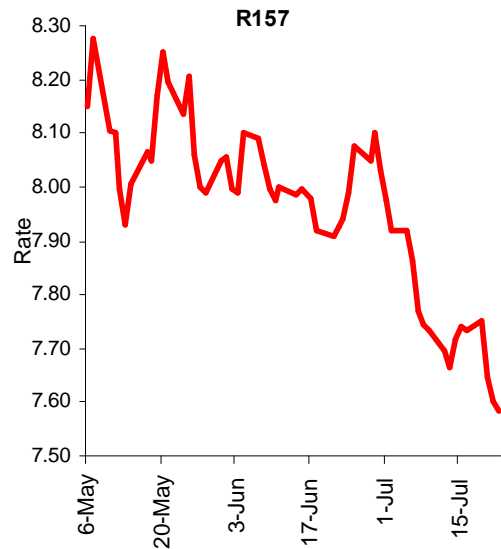
Rand Update

Arguably the most significant development overnight was Fed Chairman Bernanke's testimony to the Senate Banking Committee. His most telling comment was when he admitted that the US economy was facing an unusually uncertain outlook and that the current path of debt accumulation on the part of the US government was an unsustainable one. Equity investors subsequently chose to offload stocks whilst heightened levels of risk aversion triggered a rotation away from the risk trade. Both the JPY and the USD enjoyed recoveries against the majors and it is against this backdrop that the ZAR's overnight performance was impressive. Ahead of the SARB MPC, those who believed that another interest rate cut would induce ZAR weakness may be disappointed in the coming weeks. One of the main drivers of ZAR resilience in 2010 has been the inflows into both equities but especially bonds and a further rate cut may initially boost further inflows into these assets. According to Reuters data (bid chart), the ZAR strengthened against the USD on Wednesday, closing at R7.49 from R7.5113 on Tuesday. The ZAR also gained on the EUR and GBP, ending at R9.5542 vs. the EUR from R9.6776 on Tuesday, while finishing at R11.3586 against the GBP from R11.4683 the previous day.



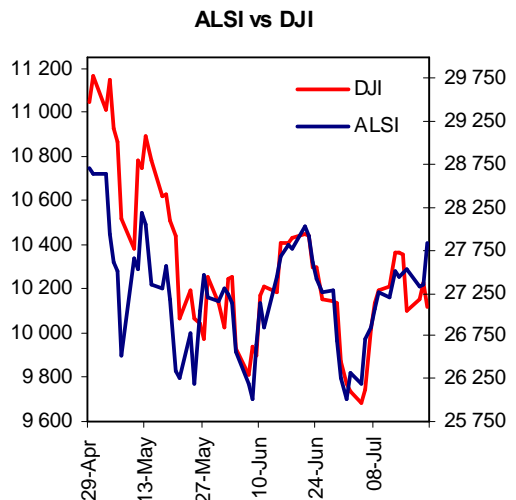
Bond Update

With the same drivers at play in the local bond market as has been the case over recent sessions, yesterday saw another assault lower on bond yields (bond market strength). Market talk suggested trade was choppy as players square up their books ahead of the MPC. However, this was not to detract from the bond market strength. It should however be considered that the move was in thin liquidity. Even the non-residential inflows from yesterday reflected the thin conditions recording a R27mn outflow following the R1.58bn the day before and the overall July inflow of R14.0bn. The view is with the amount of interest shown by foreigners, bond yields could migrate even lower post the MPC decision, especially if the door is opened for another cut through some dovish inflation comments and concerns about growth. Overall, the benchmark R157 closed stronger on Wednesday, ending the session at 7.600% vs. 7.645% on Monday. Similarly, the R186 closed stronger at 8.775%, lower than the previous close of 8.820%.



JSE Update

The JSE ALSI gained 1.8% yesterday, bringing month-to-date appreciation to 6.0%. Sentiment was upbeat as the markets began to shrug off the negative news out of the US from previous weeks. There is also some speculation of an interest rate cut in today's SARB MPC meeting, helping spur growth expectations. Resources ended the day 1.9% higher, with gold and platinum stocks strengthening 0.4% and 2.0% respectively. Banks added a substantial 2.6%, boosting financials 2.1%, while industrials rose 1.5%. US stocks, however, lost ground yesterday. Fed Chairman Bernanke's comments provided the catalyst for this, as he stated that the economic outlook remained "unusually uncertain" and hinted at further stimulus. This saw risk aversion rise and subsequently the Dow Jones fell 1.1%, while the S&P ended 1.3% lower. Meanwhile the Asian markets are mixed overnight. The Nikkei had lost 0.6% by the close, pressured by the strong JPY, while Aussie stocks dipped 0.9% on the back of a slightly disappointing Australian business outlook index. At the time of writing the Hang Seng was down 0.2%, while the Shanghai composite had risen 1.0% as falling iron ore costs boosted sentiment in the resource industry.



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